



**Meeting Minutes**  
**IADC Accounting Issues/Procedures Committee**  
**AIP Revenue Recognition Sub-Committee**  
**15 September 2016, 2-4pm**  
**IADC Corporate Headquarters**  
10370 Richmond Ave., Ste. 760, Houston, TX 77042

**Agenda Item: Next meeting & Location**

The next meeting date will be on November 17, 2016, at IADC Corporate offices at 10370 Richmond Ave., Ste. 760, Houston, TX 77042 (the meeting will be on the 7th floor).

**Note: Anti-Trust Statement**

It is the policy of IADC committees that no discussion of any specific proprietary information will be exchanged. It is also strictly forbidden that any promotion of or solicitation for participation in agreements between IADC members be allowed.

**Agenda Item: “Discussion of Edited Summary of the Lease/Revenue Standard”** – The edited draft of the summary of the lease/revenue standard discussed in the sub-committee will be distributed in the near future. Colleen Grable, Chairwoman of the Subcommittee, Ensco, began the meeting with a brief overview of the development of current understanding of the lease/revenue standard draft. Colleen also invited feedback regarding the completion of the draft summary of the lease/revenue standard for the next meeting.

David Meliza, Transocean, was asked to describe the allocation example he prepared and worked through with his auditors in order to understand the variability of revenues for the lessor in the arrangement when a majority of the costs are uncured by the operator/service provider.

The following topics were discussed during the meeting in the order as they occurred:

1. The committee discussed items that were raised in discussions with external auditors. Those items include:
  - A. The impact of impairment in regard to the impact of the retroactive impact of the standard.
  - B. Discussion of variable day rates and the effect of a zero day rate in the contract for instances outside of our control as these zero rates lend more support to full variability than zero rate for downtime.
  - C. Discussion of variable day rates in the context of the bareboat charter and the allocation of revenue between the owner and the operator such that the owner/lessor could experience negative earnings during down times and in times of lower day rates.
  - D. In the description of variable day rates, the fact that rates are applied on an hourly or semi-hourly basis supported the fully variable argument.
  - E. In our documentation of our performance obligation under the revenue recognition standard, we should be sure to articulate our position that we have only a single performance obligation.
  - F. Auditor comments and recommendations are welcome regarding these procedures, applications and interpretation of the standard. It was discussed that various audit firms have already reviewed the draft document.
2. The committee discussed briefly the difference between land and offshore determination of day rates and standby rates as well as zero rates. There may be deviations from the standard contract terms for land drillers such that the standard contract terms may not apply and the conclusions reached in the whitepaper would not be relevant. The

- committee discussed the determination of components of revenue: initial (pre-contract costs) and mobilization (considered a fixed cost).
3. The committee discussed the following topics as well from the lease perspective and ensuring a complete population of leases for implementation: discussion of service contracts as leases, stacking arrangements with shipyards as leases and the differences between operating and capital leases. The committee expressed the need to review significant agreements for the components of a lease for application of the standard.
  4. The committee continued by discussing the following: contract modification and sales tax issues. Contract modification was not incorporated in the whitepaper as modifications can affect nearly every element of lease accounting and the general concepts already included in the whitepaper would address each of these concepts. With regards to sales or withholding taxes, we discussed whether there would be gross or net accounting for sales or withholding taxes. As these were not part of the standard contract terms as they are not applicable to most drilling contracts, they were not incorporated into the standard contract terms and we determined to lease them outside the scope of the whitepaper.
  5. The group stated that each firm will continue to try to meet with audit firms to get feedback regarding the Revenue/Lease Standard draft. The audit firms will be asked to provide feedback as to their agreement or recommendations for the application of the standard.
  6. The topic of demobilization was discussed as not being a component of revenue recognition. As it is not a separate component, it will be allocated to the lease and non-lease components. Revenue for demobilization would be recognized over the lease term and service obligation. The committee discussed that the revenue will be earned ratably over the lease period as compared to a lump sum fee at the end of the contract under current GAAP. The costs for demobilization should be recognized at the end of the contract and should not be accrued over the contract. This results in the recognition of revenues and expenses in different periods and does not follow the matching principle. The committee discussed whether the uncertainty of the demobilization can support not recognizing the revenue as a fixed amount until the event happens but this was not accepted by accounting firms.
  7. The group discussed the need to continue to review and prepare feedback for the continued development of the white paper so the finished product could be presented to the AIP committee before the end of 2016.

After a full discussion of the agenda topics the committee was adjourned.

Attendance:

<b>Name</b>		<b>Company Name</b>
Melissa	Barron	<b>DIAMOND OFFSHORE</b>
Colleen	Grable	<b>ENSCO PLC</b>
Derek	Sample	<b>ENSCO PLC</b>
Jacob	Campbell	<b>ENSCO PLC</b>
Dean	Gant	<b>IADC</b>
Eddie	Wong	<b>PACIFIC DRILLING</b>
Katie	Cunningham	<b>PARAGON OFFSHORE</b>
Liza	Udilovich	<b>PARAGON OFFSHORE</b>
Kelly	Bludau	<b>PARKER DRILLING</b>
Bruce	Sauers	<b>PATERSON UTI</b>

Meredith	Voitas	<b>ROWAN COMPANIES</b>
Glenn	Smith	<b>ROWAN COMPANIES</b>
David	Meliza	<b>TRANSOCEAN</b>